New Orleans Citizen Sewer, Water & Drainage System Reform Task Force

- Integrate
- Cut Smart
- Reorganize
- Invest & Grow

September 19, 2012

Honorable Mitchell J. Landrieu Office of the Mayor 1300 Perdido St,, Suite 2E04 New Orleans, LA 70112

Dear Mayor Landrieu:

The New Orleans Citizen Sewer, Water & Drainage System Reform Task Force applauds your ongoing leadership to ensure that any rate increase for proposed infrastructure investments by the Sewerage and Water Board of New Orleans (SWBNO) is combined with reforms to SWBNO's governance structure, operating practices, and customer service. The Task Force strongly believes that benefits from proposed infrastructure improvements will be undermined without significant and measurable reforms in these other important aspects of managing water services in New Orleans.

In April, the *Task Force* presented to your Administration and SWBNO a series of comprehensive infrastructure, policy, and operating reform recommendations aimed at improving overall management, storm-water protection, water and sewerage service, and related power generation and distribution. In response to your subsequent July call for a sixty-day examination of options for governance reform, improved customer service, and reduced ratepayer burden, the *Task Force* offers the following recommendations to meet those aims. Our recommendations build on the Task Force's April reports, while also reflecting ongoing discussions with local officials and the study of domestic and international best-practices that could be implemented in a timely and feasible manner in New Orleans based on existing funding sources, policies, and infrastructure.

Your Administration and SWBNO have before you the most significant leadership opportunity to transform the city's water and stormwater protection systems since they were created over a century ago. To that end, the *Task Force* offers you recommendations that emphasize accountable and transparent decision-making; sustainable and integrated infrastructure investment; and operating practices that foster efficiency and assure greater customer service.

The *Task Force* thanks you for the continued opportunity to provide you and SWBNO with suggestions for how to best couple any proposed SWBNO rate increase with meaningful improvements to the city's overall water management system. The over forty individuals and professional and community organizations that comprise this team remain committed to working with you, SWBNO, and other local officials on this all-important endeavor.

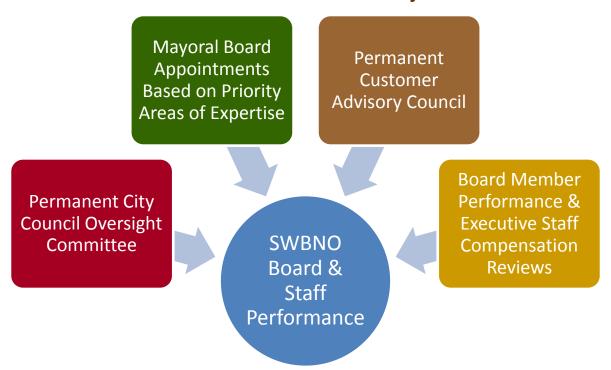
Sincerely,

Gary N. Solomon, Sr. Chair, New Orleans Citizen Sewer, Water & Drainage Management Task Force

New Orleans Citizen Sewer, Water & Drainage System Reform Task Force

SWBNO GOVERNANCE & MANAGEMENT STRUCTURE RECOMMENDATIONS

Ensure Consistent & Transparent SWBNO Board and Staff Performance Accountability



The Task Force strongly recommends the following action items to enhance public accountability, transparency, and customer involvement in SWBNO decision-making.

<u>Action Item #1</u>: Enact Ordinance or Board Charter Detailing Priority Member Qualifications, Roles, and Duties

The following skill-sets should always be represented among board members and codified via city ordinance or board bylaws to guide mayoral appointments: electrical and hydrological engineering, financial management, business management and development, environmental quality, sustainable development and urban planning, consumer advocacy, communications, public administration and/or administrative law. Board bylaws should also include defined responsibilities that guide the Board's relationship with consumers, staff, and other governmental entities.

Action Item #2: Establish a Permanent City Council Oversight Committee

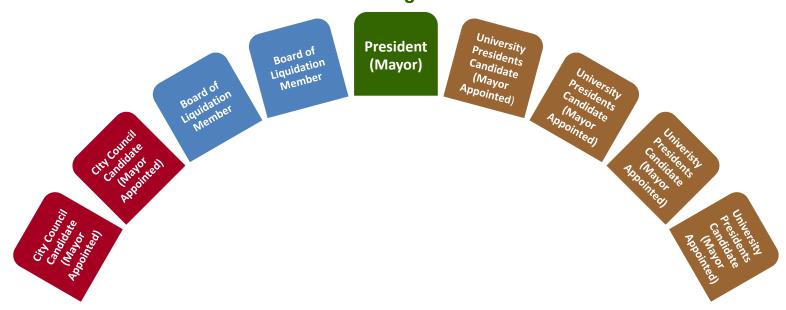
Similar to how City Council holds other local utilities accountable, Council should create a permanent *SWBNO Oversight Committee*, based on existing authority, to perform independent analysis, conduct hearings, and receive public comment to routinely evaluate SWBNO performance and proposals.

Action Item #3: Institute a Permanent Customer Advisory Council

A permanent SWBNO Customer Advisory Council should be established either by ordinance or by the SWBNO Board to advise SWBNO on all matters pertaining to or otherwise impacting customer service levels and rates. Appointed members should represent a cross section of SWBNO's customer base, community interests, and areas of expertise relevant to SWBNO operations.

<u>Action Item #4</u>: Regularly Evaluate Board Member Performance & Executive Staff Performance and Compensation

Foster Efficient & Well-Informed SWBNO Board and Staff Decision-Making



The *Task Force* strongly recommends the following action items to enhance board and staff decision-making and performance. These action items should be implemented in conjunction with *Task Force* recommendations for enhancing public accountability, including an ordinance or bylaws that codify priority board member areas of expertise.

Action Item #1: Reduce Board to Nine Members that Serve Six-Year Terms

<u>Action Item #2</u>: Appoint Two Members Based on Candidates Submitted to the Mayor by City Council and Four Members Based on Candidates Submitted to the Mayor by Local University Presidents

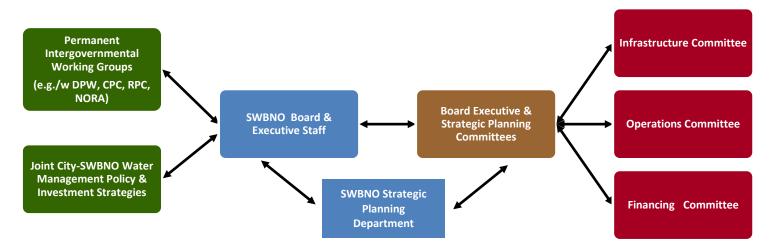
<u>Action Item #3</u>: Establish a Permanent Board-Committee Nominating Committee to Designate Committee Assignments and Chairperson Selections

<u>Action Item #4</u>: Establish Two-tiered Ratemaking Process to Enable More Gradual, Need-Based Rate Approvals

A two-tiered "Cost of Service" approach to ratemaking should be used to ensure rates are adjusted gradually, regularly, and based on strategic plans for infrastructure and operational improvements, changing service demands, and projected reserve-fund needs for meeting all the above.

Under this approach, City Council retains rate approval authority above an established rate increase threshold. Below that threshold, the SWBNO Board would have authority to change rates based on established price indices that reflect price changes most often experienced in carrying out SWBNO functions, including water, sewer, and electricity costs.

Increase Strategic Planning to Assure Smarter & Sustainable Infrastructure Investment and Water Management



The *Task Force* strongly recommends the following action items to ensure that SWBNO operations and investments are coordinated and advance overarching water management and flood protection policy goals that should be established among all local governmental entities.

<u>Action Item #1</u>: Institute a Permanent Strategic Planning Committee & Conduct Regular Infrastructure, Operations, and Financing Improvement Assessments

A *Strategic Planning Committee* should be established to conduct quarterly reviews of infrastructure, business, and financial strategies and conduct more comprehensive planning as needed to address evolving needs. Such reviews and planning should be based on service level goals and performance evaluations created by the *Finance, Operations,* and *Infrastructure* committees. The Committee should also utilize input from other local governmental entities, customers, and relevant experts.

In turn, SWBNO's *Infrastructure, Finance, and Operations Committees* should be retooled to work in sync with the *Executive and Strategic Planning Committees* to shape comprehensive strategic plans and investment initiatives, then monitor staff performance in furtherance of those aims. In so doing, these committees should use performance management tools to translate the goals of SWBNO's strategic plan and related investment initiatives into actionable measures that can be evaluated.

<u>Action Item #2</u>: Establish Joint City-SWBNO Water Management Policy & Investment Priorities and Strategies to Coordinate Planning, Regulations, and Infrastructure

Pledged City and SWBNO support for better water management must translate into major policy and infrastructure investments that require coordinated infrastructure and land use planning.

<u>Action Item #3</u>: Institute Formal Working Groups and Processes for Coordinating with Other Local and Regional Entities to Develop Integrated Water Management Solutions

Action Item #4: Establish a SWBNO Strategic Policy and Planning Department

SWBNO should establish a multidisciplinary, professionally staffed department to direct comprehensive infrastructure, operational, and financial planning. This unit would work directly with management and the Board to support board strategic planning with reliable research, public administration, and intergovernmental coordination recommendations.

New Orleans Citizen Sewer, Water & Drainage System Reform Task Force

SWBNO CUSTOMER SERVICE & OPERATIONS IMPROVEMENT RECOMMENDATIONS

Recommended Customer Service Improvements

<u>Action Item #1</u>: Unify Disadvantaged Business Enterprise Certification, Credit DBE Prime Contractors, and Streamline Certification Process and Monitoring

The *Task Force* recommends SWBNO, the City, and other Orleans Parish governmental entities use a single standard for DBE qualification. In addition, SWBNO should allow for prime contractors to be certified or otherwise receive credit towards certification if that company would otherwise fulfill SWBNO's DBE criteria. As such, the *Task Force* recommends a tiered DBE process whereby DBE vendors "graduate" upon reaching an established amount of time in the program or business capacity threshold. Continued incentives for such entities could be prime vendor certification and/or credits for mentoring or facilitating continuing education. Finally, transparent and uniform guidelines and evaluation tools should be used when making DBE certification decisions. SWBNO would benefit from clearer compliance protocol for monitoring contractor compliance with DBE goals, including uniform and consistently applied financial or participation penalties for not meeting DBE goals and incentives for exceeding stated goals.

Action Item #2: Expand SWBNO Business Development & Liaison Capacity

SWBNO should create a Business Retention & Development Department, which includes a liaison to work with the City's economic development-related entities to provide businesses with information regarding SWBNO operations and water/drainage capacity at potential development locations.

Action Item #3: Harmonize Information Systems Among City & SWBNO Departments:

The *Task Force* strongly recommends that SWBNO identify existing information management systems that need to be modernized and/or harmonized with related system among other local governmental entities to improve customer service, metering, billing, and general water system functions.

<u>Action Item #4</u>: Regularly Evaluate Customer Satisfaction & Operating Efficiency:

SWBNO should develop performance metrics based on industry best-practices to evaluate organization success in meeting investment and operations goals. This should include customer surveys via a variety of outreach mediums to gauge customer satisfaction and receive real-time feedback.

Recommended Operational Improvements

Action Item #1: Reduce Direct Board Execution of SWBNO Contract Processes

SWBNO's contracting process should be conducted by a central procurement office with performance goals and oversight from the Board. Currently, the Board attempts to review all bid advertisements, requests for proposals, contracts, and bid change, and directly manage Disadvantaged Business Enterprise selections. Given that the Board only meets monthly, often failing to achieve quorum, it cannot reliably manage these tasks without delay and dysfunction.

Instead, the Board should establish policies and performance benchmarks to guide staff-administered contracting. Large transactions should remain in the direct purview of the Board, including approving contracts of \$1 million or more and contract modifications exceeding \$250,000.

<u>Action Item #2</u>: Establish SWBNO-City DPW Unit to implement road and subsurface improvements using joint procurement and project management processes

Action Item #3: Conduct annual joint financing and construction planning among City, SWBNO, and RPC for all applicable surface and subsurface improvement work

<u>Action Item #4</u>: Develop an Operational Strategic Plan to detail operational and staffing improvements relative to proposed rate increase and strategic plan

SWBNO should reinforce its requested rate increase with more details for how it will increase operational capacity with increased revenue. The *Task Force* recommends that SWBNO present an Operational Strategic Plan that includes the following:

- Outline how O&M departments will interrelate with each other, management, and the Board.
- Propose means for bolstering staff expertise in lieu of overreliance on consultants, including dual-expertise in water and sewerage systems to consolidate staffing needs.
- List current operational shortcomings such as offline systems, personnel inefficiencies, technology shortfalls, and limited collections; and resources to address these shortcomings.
- Assess current and desired levels of system efficiency and customer service and address how intended operational reforms address those aims.
- Sequence operational and staff improvements relative to forecasted O&M investment.
- Specify cost savings and efficiency goals based on proposed O&M investment increases.

Action Item #5: Develop staff succession and training program

Given that over 33% of current O&M personnel have 20 years or more service time with SWBNO, including critical management and supervisory positions, SWBNO should reinforce its proposed rate increase with a plan for staff succession and training that addresses the following issues:

- Identify specific updated skill-sets needed in each department and functions currently handled by personnel with more than 20 years of SWBNO service.
- Identify content and material resource needs, select staff liaisons, and structure ongoing training programs relative to specific departmental operation goals.
- Sequence training relative to forecasted O&M investment.

<u>Action Item #6</u>: Institute regularly capital investment planning that emphasizes decentralized, advanced treatment and sustainable distribution and collection

SWBNO should complement planned infrastructure improvements with a regularly conducted infrastructure planning processes to achieve more proactive infrastructure investment. Current proposed improvements are a necessity but more a function of deferred maintenance and available federal monies, than the outcome of goal-oriented process for achieving a sustainable and integrated New Orleans water system. The *Task Force* recommends that SWBNO develop a comprehensive sustainable infrastructure planning process that accomplishes the following:

- Invest in system improvements that reflect anticipated service area conditions and community growth patterns (anticipated land use, population, hydrologic, and water consumption changes)
- Integrate water system design with regional transportation, public space, and stormwater management aims.
- Define SWNBO's long-term sustainability aims and establish performance metrics for gauging success in achieving those aims, including increasing local watershed quality, meeting or exceeding federal requirements for water treatment, minimizing energy consumption, decreasing treatment residuals, and facilitating effluent reuse options.

Action Item #7: Develop plan for complete restoration of water distribution system

SWBNO should develop a long-term *Distribution System Asset Management Plan* to establish a reasonable time frame and transparent prioritization process for completely restoring the city's water distribution system. SWBNO's proposed \$202 million in improvements to the system is only an initial investment towards complete restoration, which is estimated to cost over \$3 billion and could require over 20-years to complete. As such, a comprehensive replacement program should be developed to address the following:

- Develop non-intrusive tools and metrics for identifying leakage areas, including a acoustic leak detection system and financial and consumption modeling within geographical areas.
- Develop a prioritization system for repairs based on community needs and the probability and consequences of system failure.
- Identify repair options that maximize sustainability, cost-benefit, and minimize public disruption.
- Estimate the time needed to complete system restoration, total funding needed, and to the extent feasible, classify areas of the city in terms of the probability and consequences of failure,
- Coordinate funding streams and repairs with other local governmental entities and projects.
- Establish means for objective public input and monitoring.

Action Item #8: Revise Civil Service Rules to Improve Hiring Technical Positions

The *Task Force* recommends that SWBNO be afforded greater autonomy to define the scope and compensation of its specialized and technical positions. Current rules uniformly define technical positions across all local governmental entities, ignoring SWBNO's unique skill-set needs.

New Orleans Citizen Sewer, Water & Drainage System Reform Task Force

SWBNO RATEPAYER SAVINGS & FAIRNESS RECOMMENDATIONS

General Operational Savings:

<u>Action Item #1</u>: Establish timeframe for adjusting rates to reflect varied meter and "readiness to serve" costs among customer classes, while incentivizing conservation

<u>Action Item #2</u>: Improve ratepayer collection practices through improved data gathering, restrictor plates, legal enforcement, and replacing at least 10% of system meters annually

<u>Estimated Savings</u>: Approximately <u>\$2.3 million</u> in annual net revenue gained. See, Task Force Sewerage & Water System Report, pgs. 13-15.

<u>Action Item #3</u>: Invest in system upgrades that reduce overall system energy demand, reduce heat waste streams, and increase energy recycling

Water System Savings:

<u>Action Item #1</u>: Invest in water loss control initiatives that include advanced metering and annual water audits

Estimated Savings: Approximately <u>45% of the cost to process drinking water</u> is lost due to system leaks. See, *Task Force Sewerage & Water System Report, pgs. 16-17.*

<u>Action Item #2</u>: Narrow the categories of public entities eligible for free water and sewer services and require all public entities install functional water meters and pay marginal production costs and a share of customer account management expenses

<u>Estimated Savings</u>: Approximately up to **\$6 million** in annual costs saved. *See, Task Force Sewerage & Water System Report, pgs. 18-19.*

Power System Savings:

Action Item #1: Increase offsite generated 60-hertz (Hz) power; reduce onsite generated power and use less expensive natural gas generation instead of steam when done; and expand converters to change 60-Hz electricity into 25-Hz power for 25-Hz pump motors

<u>Estimated Savings</u>: Approximately <u>\$35.4 million</u> in planned repair costs; <u>\$5 million</u> in annual power production costs; and up to <u>\$2.5 million</u> in annual operations and maintenance costs. See, Task Force Power System Report, pgs. 6, 8-12.

<u>Action Item #2</u>: Power permanent lakefront pump stations using electricity delivered underground from SWBNO instead of more costly and polluting onsite diesel fuel tanks

<u>Estimated Savings</u>: Over <u>\$27 million</u> in operations and maintenance costs every ten years. See, *Task Force Power System Report, pgs. 13-14*.

<u>Action Item #3</u>: Develop plan for selling excess self-generated electricity and analyze cost and efficiency of third-party management of power generation